



**Dr Pixley Ka Isaka Seme
Municipality
MP304**

**Annual Budget
2014/2015 to 2016/2017**

1. TABLE OF CONTENTS

NO	SECTION DESCRIPTION	PAGE
	PART 1 – ANNUAL BUDGET	
1	Mayors Report	1
2	Draft Resolutions	2
3	Executive Summary	3
4	Legislative Requirements	5
5	Annual Budget Tables and Related Charts	9
	PART 2 – SUPPORTING DOCUMENTATION	
6	Overview of annual budget process	10
7	Overview of budget related policies	11
8	Overview of alignment of annual budget with Integrated Development Plan	12
9	Overview of budget assumptions	13
10	Overview of budget funding	14
11	Expenditure on allocations and grant programmes	14
12	Councillor and board member allowances and employee benefits	16
13	Monthly targets for revenue, expenditure and cash flows	17
14	Annual budget and service delivery and budget implementation plans- internal departments	18
15	Contracts having future budgetary implications	19
16	Capital expenditure details	20
17	Legislation compliance status	21
18	Annual budgets of municipal entities attached to the municipalities annual budget	22
19	Municipal manager's quality certification	23
	ANNEXURE A – A1 SCHEDULE	
	ANNEXURE B –TARIFF OF CHARGES	
	ANNEXURE C – BUDGET REALATED POLICIES	

PART 1 – ANNUAL BUDGET

1. MAYOR’S REPORT

Councillors, Officials and valuable members of our community, It gives me great pleasure to present to council the 2014/2015 annual budget and the outer subsequent years.

The Municipality’s core business is enhancing service delivery for our communities. Despite the limited resources at the disposal of the municipality this budget seeks to better service delivery. We are aware of the challenges being faced by our people.

As we all know, the Municipality’s infrastructure is aging, therefore, it becomes more critical that council is able to balance its finances in such a way that we are able to maintain the infrastructure and assets that we have. To this end the budget for repairs and maintenance has been increased significantly.

The Municipality faces many challenges, chiefly the thin revenue base of the municipality. Despite these hurdles in front of us we are pleased to have put together a realistic budget under the circumstances. As the Council of Dr Pixley Ka Isaka Seme Municipality we are committed to improving efficiency and implementation of sound financial management. In this regard the 2014/2015 budget has an operating expenditure budget of R335.1 million and the operating revenue budget of R235.6 million, which has a deficit of R99.3 million due to Non-cash items (Depreciation and Debt impairment) and the on-going disputes with Department of Water Affairs for the R65.0 million which has not yet resolved. The capital budget is at R28.7 million which is funded from *Transfers and grants* of R28.2 million and *Internally generated funds* of R500 000. The municipality has been experiencing cash flow constraints during current financial year.

In conclusion, I would like to thank all the Councillors for their invaluable contributions in this budget, the Municipal Manager, the Heads of Departments and all staff members who made the budget process a success. Honourable Councillors with those few words I have pleasure in placing the 2014/2015 capital and operating budget for consideration and approval. It is now time to work smarter, harder and faster in delivering on our core mandate. Your continued support is a testimony and affirmation that we can do better in improving the quality of lives of our communities.

I thank you

2. BUDGET RESOLUTIONS

- (a). That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2014/15; and indicative allocations for the two projected outer years 2015/16 and 2016/17; and the multi-year and single year capital appropriations be approved.
- (b). That the sources to fund both operating and capital budgets be noted and approved.
- (c). That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply water, electricity, waste services, sanitation services and property rates as set out Annexure B that were used to prepare the estimates of revenue by source, be approved with effect from 1 July 2014 for all services except for Refuse, Water and sanitation and Electricity consumption, which be levied on the new tariff with effect from 01 August 2014.
- (d). That the Tariff of Charges be approved.
- (e). That Water, Refuse and Sanitations tariffs be increased by 7%.
- (f). That Electricity tariffs be increased by 7.39% as per directive from NERSA and that the Inclining Block Tariff (IBT) will be applied.
- (g). That the Credit Control and Debt Collection Policy be note and approved.
- (h). That the Supply Chain management Policy be noted and approved.
- (i). That the Rates Policy be noted and approved.
- (j). That the reviewed Budget policy be noted and approved.
- (k). That the reviewed Budget Virement policy be noted and approved.
- (l). That the reviewed Indigent policy be noted and approved.
- (m). That the reviewed Tariff policy be noted and approved.
- (n). That the reviewed Overtime Policy be noted and approved.
- (o). That the reviewed Recruitment, Selection and Appointment policy be noted and approved.
- (p). That the reviewed Appointment of Temporal Worker Policy be noted and approved.
- (q). That the reviewed Retention Strategy be noted and approved.

3. EXECUTIVE SUMMARY

TABLING OF BUDGET 2014/2015 FINANCIAL YEAR

INTRODUCTION

The purpose of the 2013/14 medium-term budget is to comply with the Municipal Finance Management Act (No.56 of 2003) and is a financial plan to enable the municipality to achieve its vision and mission through the IDP which informs the Dr Pixley Ka Isaka Seme Municipality's five-year programme and community/stakeholder inputs.

BACKGROUND

The Mpumalanga Provincial Treasury & COGTA conducted benchmark budget hearings during April and May 2014 on Draft budget to assess whether the budgets are realistic, sustainable and relevant, and the extent to which the budget are funded in accordance with the requirements of the MFMA. In this regard, we were expected to make the necessary improvements prior to tabling the budget for approval by June 2014.

Accounting for the rehabilitation of capital assets

It has come to the attention of National Treasury that municipalities are liable for the rehabilitation of assets; as repairs and maintenance; as opposed to reporting this as an increase in the value of the capital asset.

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognized as capital if:

the expenditure enhances the service provision of that capital asset (with the exclusion of operational running maintenance);

increases the useful life of that capital asset (beyond its original life);

increases that capital asset capacity (beyond its original capacity);

increases the performance of the capital asset (beyond the original performance);

increases the functionality of that capital asset;

reduces the future ownership costs of that capital asset significantly; or

increases the size of the asset or changes its shape.

Budgeting for unfunded/underfunded mandates

In previous budget years, it was noted that a number of municipalities were budgeting for unfunded/underfunded mandates. The South African Cities Network (SACN, 2007:78) defines an unfunded/underfunded mandate as when municipalities perform the functions of other spheres of government and bear significant costs out of their own revenue sources.

These unfunded/underfunded mandates pose an institutional and financial risk to the Municipality as substantial amounts of own funding is allocated to non-core functions at the expense of service delivery.

One of the main objectives of Local Government is to ensure the provision of basic services to communities. Section 153 of the Constitution requires that budgeting processes must prioritize the basic needs of the community.

The Municipality's priorities are therefore the provision of basic services such as electricity, water, sanitation and refuse removal in its MTREF budgets. Municipalities may only budget for non-core functions such as crèches, sports fields, libraries, museums, health services, etc. if:

The function is listed in Schedule 4B and 5B of the Constitution;

The function is assigned to municipalities in terms of national and provincial legislation;

The Municipality has prioritized the provision of basic services; and

It does not jeopardize the financial viability of the Municipality.

SERVICES

Council needs to take note that trading services such as Electricity and Water are currently running at a loss and have been running at a loss for a number of years. Equitable share is used to augment and subsidize these services which is not supposed to be the case. If Council does not take a firm resolution in the next few years to change the situation, the Municipality may run into financial difficulty as Treasury is also reviewing its funding strategies.

FINANCIAL SUSTAINABILITY

The future sustainability of the Municipality is critical if the Municipality improves its operations and it therefore becomes imperative that the Municipality continue to improve its efforts in ensuring that the community receives the best service from Council. The tariffs have been populated such that in the short term to medium term the Municipality is in a position to change the position of Council whilst ensuring that our services are affordable.

The projected grant dependency of the Municipality for 2014/2015 and 53% collection rate will not change in the short term and the Municipality needs to consolidate its efforts in stopping the non-essentials. The trend on Grant dependency will increase more if efforts are not made to increase collection on outstanding debts

LEGISLATIVE REQUIREMENT

The Municipal Finance Management Act 56 of 2003 requires Councils to prepare budgets for each year and submit same to Council at least three months before the start of the new financial year. Section 16(2) of the MFMA affirms the principle of tabling the budget at least 90 days before the start of the new financial year.

Section 24 (1) of the MFMA states that the **Municipal Council** must at least 30 days before the start of the **budget year**; consider approval of the annual budget.

2) An annual budget

- a) must be approved before the start of the budget year;
- b) is approved by the adoption by the Council of a resolution referred to in section 17(3)(a)(i); and
- c) must be approved together with the adoption of resolutions as may be necessary for
 - i) imposing any municipal tax for the budget year;
 - ii) setting any municipal tariffs for the budget year;
 - iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;
 - iv) approving any changes to the Municipality's integrated development plan; and
 - v) approving any changes to the Municipality's budget-related policies.

3) The Accounting Officer of a Municipality must submit the approved annual budget to the National Treasury and the relevant Provincial Treasury.

With reference to circular 70 and 72, the request for early tabling outlined the following advantages: Provide for extra time for municipalities to incorporate the findings and recommendations of the engagements with the National Treasury and respective provincial treasuries on the 2014/15 budgets and MTREF's into their final budgets and MTREF's;

Provide a longer interval for the National Energy Regulator of South Africa (NERSA) to consider the proposed electricity tariff structures within their regulatory processes prior to adoption by the Municipality. Early tabling will enable municipalities to incorporate any comments and recommendations received by NERSA prior to finalization of the 2014/15 budgets and MTREF's.

Provide more time for Public Participation as required by the MFMA; an area where municipalities are generally weak and needs specific attention for improvement.

REVISING RATES, TARIFFS AND OTHER CHARGES

Section 18 of the Municipal Finance Management Act, 2003 which deals with the funding of expenditure, states as follows:

- (1) “An annual budget may only be funded from –
 - (a) Realistically anticipated revenue to be collected from the approved sources of revenue;
 - (b) Cash-backed accumulated funds from previous financial years’ surpluses not committed for other purposes; and
 - (c) Borrowed funds, but only for the capital budget referred to in section 17(2).
- (2) Revenue projections in the budget must be realistic, taking into account –
 - (a) projected revenue for the current year based on collection levels to date; and
 - (b) actual revenue collected in previous years.”

In terms of Section 21 of the MFMA, the Mayor must ensure that the budget tabled in Council for consultation; is credible. A credible budget must be consistent with the IDP and be achievable in terms of service delivery and performance targets; revenue and expenditure projections must be realistic; and the implementation of the budget must improve the financial viability of the Municipality (refer to page 2 of MFMA Circular 28 for a detailed discussion).

Municipalities are urged to sign service level agreements and recover costs where unfunded/underfunded mandates are performed on behalf of other spheres of Government.

FINANCIAL IMPLICATIONS

PROPERTY RATES

Tariffs for properties will be as follows:

Category	Tariff
Residential	0.006848
Business/Commercial	0.01027
Industrial	0.0150
Agricultural	0.001712
State owned	0.0150
Vacant	0.0150
Public Service Infrastructure	0.0021
Mining	0.0200

The total rates to be billed amounts to R33 000 000 which is an increase of R11 400 000 from R21 680 000.

The major increase will be on state land and mining where the increase will be 13.6% on both categories.

Vacant stand's tariff will increase by 7% in order to discourage land owners from keeping land undeveloped.

SEWERAGE AND SANITATION

Sewerage and Sanitation rates on average will increase by 7% in the 2014/15 financial year. Total rates to be billed amounts to R11 742 000, which is an increase of R 800 000 from R10 974 000.

REFUSE

Total rates to be billed will be R 8 025 000, an increase of R500 000 in the 2014/15 financial year from R7 500 000.

Municipalities are once again reminded that in many instances waste tariffs do not cover the cost of providing the different components of the service. Where this is the case, municipalities should aim to have appropriately structured, cost-reflective solid waste tariffs in place by 2015.

The tariffs for solid waste management took into account that it is good practice to maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites. The proposed tariff will be increased by 7%.

ELECTRICITY

The electricity tariff will increase by 7.39% equal to the increase approved by NERSA. In the 2014/15 Council will move away from flat rate tariff to block tariffs as we run the risk of losing money when implementing the flat tariff. This is necessitated by the fact that Eskom has been billing the Municipality based on an increasing block tariff which is usage based. The Municipality has not followed the same structure to make recovery possible. The projected income to be generated in the 2014/20145 Financial year budget amounts to R48 487 000 from R44 123 000.

WATER

The projected revenue on water services will be R13.5 million from R12.6 million, an increase of R900 000 in 2014/14 financial year. The increase in tariff will be 7% and Council will implement an automatic penalty fee in the event where there is a shortage of water in the Volksrust / Vukuzakhe from the Mahawane supply dam.

TRANSFERS AND GRANTS FOR 2014/15 FINANCIAL YEAR AS PER DORA:

- Equitable share R87 956 000
- Expanded Public Works Programme (EPWP) R3 554 000
- Finance Management Grant (FMG) R1 600 000
- Municipal Systems Information Grant (MSIG) R934 000
- Municipal Infrastructure Grant R25 220 000
- Integrated Electrification Programme INEP R3 000 000

CAPITAL BUDGET

The MIG funding allocated to capital budget for 2013/2014 was R29 331 000 and National Treasury approved for roll-over of R6 351 000 for 2013/2014. The allocation for 2014/15 financial year is R25 220 000 and further funding allocation of R3 000 000 from Department Of Energy.

EXPENDITURE

1. Salaries will increase by R7 378 000 from R71 939 000 to R79 317 000 due to SALGA annual increment.
2. Councillor allowances will increase by R513 000 from R6 437 000 to R 6 950 000 due to upper limits.
3. Bulk purchases will increase by R3 256 000 from R49 744 000 to R53 000 000 due to the increase of 8.06% by Eskom.
4. Other expenditure will decrease by R15 564 000 from R53 443 000 to R37 879 000 due to cost curtailment measures.

FUNDING AND CASH FLOWS

The Municipality's cash resources are declining as a result of low collection rate which is currently reported at 53%. Credit control policy coupled with the implementation of the revenue enhancement strategy needs to be fully implemented in order to improve the collection rate.

The municipality's budget has a deficit of R99.3 million as reflected on Table A4 as a result of Depreciation and debt impairment (Non cash items) however Table A7 shows a surplus of R13.5 million. The supporting Table SA10 shows that the municipality's budget is not funded by R 41.3 million, this is due to the ongoing dispute with Department of Water affairs of R65.0 million which the municipality has provided for on Table A8. The Council has appointed a committee which will be handling this matter.

5. ANNUAL BUDGET TABLES AND RELATED CHARTS

As attached in Annexure A - A1 Schedule

PART 2 – SUPPORTING DOCUMENTATION

6 OVERVIEW OF BUDGET PROCESS

6.1 Political Oversight of Budget Process

The concept of political oversight over the budget process is of paramount importance and it is crucial to ensuring that strategy informs budget.

The political oversight role of the Mayor is contained in Section 53 (1)(a) and (b) of the Municipal Finance Management Act (MFMA). It requires that the Mayor must provide political guidance over the budget process and the priorities that guide the preparation of the budget. It further requires that the Mayor co-ordinate the revision of the IDP and the preparation of the annual budget and to determine how the IDP is to be taken into account for the purpose of the budget.

The demands on the Municipality to address service delivery backlogs and to improve service delivery to all of its citizens, within current financial resources, are challenging. Political oversight of the budget process is therefore essential to ensure that the priorities of the municipality are addressed through budget allocations.

7. OVERVIEW OF BUDGET RELATED POLICIES

The Municipality's budget is guided and governed by relevant legislation and budget related policies. The main purpose of budget related policies is to guide the budget process and inform the projections of the medium-term budget.

The following budget related policies, which have been approved by Council or currently under review, are currently in force to ensure an informed smooth budgetary process and financial management of the Municipality in line with the Municipal Finance Management Act, other relevant legislation and Accounting Standards.

- Credit Control and Debt Collection Policy
- Supply Chain management Policy
- Property Rates Policy
- Budget policy
- Budget Virement policy
- Indigent policy
- Tariff policy
- Overtime Policy
- Recruitment, Selection and Appointment policy
- Appointment of Temporal Worker Policy
- Retention Strategy
- Education, Training and Development Policy

8. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH INTEGRATED DEVELOPMENT PLAN

An Integrated Development Plan (IDP) is a strategic plan for how the Dr Pixley Ka Isaka Seme Municipality will allocate its resources for the next five years to address the priority needs of its communities. It is a plan to help us set our budget priorities, and to guide sector departments in compiling its Medium Term Expenditure Framework.

The IDP will therefore form an agreement with the Municipality and the community on what, how and when projects and programmes will be implemented and how it will be monitored.

It is a Plan for the entire municipal area and summarises the interventions of all spheres of government aligning our local plans with National and Provincial priorities. Whilst the needs identified by communities far exceeds the available resources, the attempts to inform the medium terms budget allocations and priorities to be funded from Nationally raised revenue.

The IDP therefore outlines key areas where we must intervene and focus our resources in order to achieve the developmental mandate of local government.

This strategic plan must also inform municipal decision making as well as business processes of the Municipality.

9. OVERVIEW OF BUDGET ASSUMPTIONS

The global economy grew by an average of 5% from 2003 to 2007. It was a period of robust expansion but also of widening international imbalances. However, 2008 saw the gathering of storm clouds as industrialised countries moved into recession into the latter part of the year, interrupting a lengthy spell of sustained, positive growth in national and local economies. South African economy was no exception with the economy slowing sharply. Like other emerging markets we were affected by the looming recession in advanced economies. Our government has, however, adopted a macroeconomic framework and fiscal stance capable of withstanding tough times and protecting the economy during times of global economic turbulence. The Stats SA resulted indicated that South Africa is slowly moving out of recession, however, it is anticipated that challenges caused by recession will take more just a year to re-instate as its impact will remain with South Africa for some time. This has been evidenced by the continuing job losses and employee demands for higher wages and nationwide service delivery protests.

Dr Pixley Ka Isaka Seme Municipality, like and any other business organisation, is still subject to the impact from the global crisis as well as related ripple effects from the high unemployment rates which characterizes the local economy. The recent hikes in, to mention a few, electricity bulk purchases, fuel and the massive depreciation of the rand in recently could not be viewed in isolation of the Municipality. Dr Pixley Ka Isaka Seme is not insulated from the effects of the above mentioned economic metrics, therefore, the impact is negative on the Municipality residents and the 2014/2015 budget.

Budget Guidelines

The following are some of the budget percentage increases and assumptions used in preparing 2014/2015 medium-term budget:

Tariffs for properties will be as follows:

Category	Tariff
Residential	0.006848
Business/Commercial	0.01027
Industrial	0.0150
Agricultural	0.001712
State owned	0.0150
Vacant	0.0150
Public Service Infrastructure	0.0021

Mining	0.0200
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SEWERAGE AND SANITATION

Sewerage and Sanitation rates on average will increase by 7% in the 2014/15 financial year.

REFUSE

The proposed tariff will be increased by 7%.

ELECTRICITY

The electricity tariff will increase by 7.39% equal to the increase approved by NERSA.

WATER

The increase in tariff will be 7% and Council will implement an automatic penalty fee in the event where there is a shortage of water in the Volksrust / Vukuzakhe from the Mahawane supply dam.

10. OVERVIEW OF BUDGET FUNDING

TRANSFERS AND GRANTS FOR 2014/15 FINANCIAL YEAR AS PER DORA:

- Equitable share R87 956 000
- Expanded Public Works Programme (EPWP) R3 554 000
- Finance Management Grant (FMG) R1 600 000
- Municipal Systems Information Grant (MSIG) R934 000
- Municipal Infrastructure Grant R25 220 000
- Integrated Electrification Programme INEP R3 000 000

11. EXPENDITURE ON GRANT ALLOCATION PROGRAMMES

For Grant allocations, please refer to SA18 of Schedule A.

In terms of the DORA 2014 the purpose of the grants which have been allocated to Dr Pixley Ka Isaka Seme Municipality for the MTREF are:

EXPENDITURE ON GRANT ALLOCATIONS PROGRAMMES

Municipal Infrastructure Grant

The purpose of the grant is intended for the provision of capital finance for basic municipal infrastructure for the poor households, micro enterprise and social institutions. It is also for provision for new rehabilitation and upgrading of municipal infrastructure.

The MIG funding allocated to capital budget for 2013/2014 was R29 331 000 and National Treasury approved for roll-over of R6 351 000 for 2013/2014. The allocation for 2014/15 financial year is R25 220 000 and further funding allocation of R3 000 000 from Department Of Energy.

Financial Management Grant

The purpose of the FMG is to promote and support reforms in the Budget and Treasury Office building the capacity in the municipalities to implement the MFMA, with the following measurable outputs.

- Improved and sustained skills development including an internship programme in the BTO
- Preparation and implementation of supply chain reforms, accounting reforms, producing quality and timely financial statements
- Preparation of financial recovery plans
- Progressive improvements in audit outcomes
- Improvements to internal and external reporting on budgets, finances, SDBIP and annual Reports
- Implementation of the MFMA

Municipal Systems Improvement Grant

The purpose of the MSIG is to assist municipalities in building in-house capacity in order to perform their functions and to stabilize institutional and governance systems as required by the Local Government Municipal Systems Act of 2000 and related legislation and policies.

EPWP Grant

To provide expanded public works programme incentive funding to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised..

12. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

As per the attached Annexure B- SA22, SA23 and SA24

13. MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOWS

As per the attached Annexure B – SA25-SA28

14. ANNUAL BUDGET AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN – INTERNAL DEPARTMENTS

The Annual Budget and Service Delivery Implementation Plans have been submitted separately for Council's consideration and approval.

15. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

At the time of approving the budget there were no contracts are awarded beyond the medium –term revenue and expenditure framework (Three years)It is envisaged at this stage that no contract will have budgetary implications beyond a period of three years.

16. CAPITAL EXPENDITURE DETAILS

As per the attached Annexure B – SA34a

17. LEGISLATION COMPLIANCE STATUS

Municipal Finance Management Act

The Municipal Finance Management Act, No. 56 of 2003 came into effect on 1 July 2004. The Dr Pixley Ka Isaka Seme Municipality was identified as a low capacity Municipality, and as such had the benefit of implementing the Act with dispensations. The following main processes have been implemented in terms of the Municipal Finance Management Act:

- The budget process.
- Supply Chain Management.
- Full implementation of GRAP.
- Financial in-year reporting.
- Adjustment budgeting
- Annual reporting.
- Compilation and implementation of various policies.
- Compilation of procedural notes for main financial accounting processes.
- The budget and Treasury office has been established in accordance with the requirements
- Service Delivery and Budget Implementation plans are applied as monitoring tools
- Audit Committee has been established

Municipal Property Rates Act

The 2014/2015 and the preceding year are challenging years for Dr Pixley Ka Isaka Seme Municipality as a new Valuation roll will be implemented from the 1st of July 2014.

Compliance with Gazette 32141: Municipal Budget and Reporting Regulations

The budget has been prepared in compliance with the Budget and Reporting Regulations.

Other Legislation

Dr Pixley Ka Isaka Seme Municipality has complied with a number of other legislation, including the Local Government Municipal Systems Act, gazettes and circulars issued by Treasuries on a continuous basis.

**18. ANNUAL BUDGET OF MUNICIPAL ENTITY ATTACHED TO THE
MUNICIPALITY'S ANNUAL BUDGET**

The municipality does not have entities.

19. MUNICIPAL MANAGER'S QUALITY CERTIFICATE

I, **Mr. PB Malebye**, Municipal Manager of **DR PIXLEY KA ISAKA SEME MUNICIPALITY**, hereby certify that the Annual Budget and supporting documentation of the 2014/15 Operating and Capital Budget have been prepared in accordance with the Municipal Finance Management Act; 56 of 2003, and the Regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name : **Mr. Patrick Baromeng Malebye**

Municipal Manager of : **DR PIXLEY KA ISAKA SEME MUNICIPALITY (MP304)**

Signature _____

Date : **17 May 2014**